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STATE PASS TO USTR CAROYL MILLER, COMMERCE FOR MARIA D'ANDREA

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TAGS: ECON ETRD KTEX GH
SUBJECT: Ghana: Information on Textiles and Apparel Production

REF: A) STATE 114799; B) 2006 Accra 2321

1.(U) Summary. Ghana's apparel and textile exports to the United States grew strongly in 2006 and continue to do well in 2007. The extension of the third country fabric provision provided an important lifeline for Ghanaian firms. In spite of the growth of apparel exports to the United States, Ghana's textile and clothing sector in general remains limited and prospects for significant growth are uncertain. End summary.

Statistics

¶2. (U) Reliable, up-to-date statistics in all requested categories are not available.

Total industrial production in USD: USD 3.1 billion. Note: this is derived from data in the 2007 budget in which industry was estimated to contribute 25% of GDP in 2006. The figure is not comparable to that provided in ref B for 2003.

Total textiles and apparel production in USD: 2004-2007 data are not available: USD 202 million (2003)

Textile and apparel import share of Ghana's imports: 3.4 percent (2005); 3.8 percent (2006).
(Source: Ghana Statistical Service)

Textile and apparel export share of Ghana's exports: 0.1 percent (2005); 6.4 percent (2006).
(Source: Ghana Statistical Service)

Exports in textiles and apparel to the US in USD value:
USD 9,564,000 (2006); YTD Jan-June 2007 USD 5,393,000.
(Source: ITC from Dept. of Commerce Statistics)

AGOA including GSP Exports in textiles and apparel:
USD 8,834,000 (2006); YTD 2007 Jan-June USD 5,231,000
(Source: ITC from Dept. of Commerce Statistics)

Total manufacturing employment: 869,083 (2005/2006).
(Source: World Bank draft Country Economic Memorandum, derived from data from Ghana Living Standard Survey. Note: this figure is not comparable to that provided in ref B.)

Total textile and apparel employment: 2004-2007 data are not available.

Textiles

3.(SBU) Ghana's textile production remains very small. Ghana's textile sector more or less collapsed in the eighties when import controls were loosened and access to foreign exchange needed for imports to modernize plants was scarce. One industrial spinning facility (Akosombo Textile Limited -ATL) has survived, producing

about 1.4 million linear meters of unbleached cotton (gray baft) per month. As part of the GoG efforts under the President's Special Initiative, Juapong Textiles Limited, which had closed due to lack of competitiveness in June 2005, was re-opened as Volta Star Textiles Limited. Volta Star is being managed by a Chinese firm that has also made commitments to refurbish and purchase new equipment. They are not, however, shareholders in the firm. Production as of July was very limited (only a portion of the looms and spinning frames had been refurbished) and the firm had not yet found a buyer. However, the fabric was of high quality, per a consultant who works for the West Africa Trade Hub. There are press reports, possibly politically motivated, that the government is not paying the workers in a timely manner and the enterprise is teetering.

There are four textile printing manufacturers, including ATL, with an estimated total production of around 40 million yards, over half of which uses imported fabric. The bulk of production is used locally. A small amount of fabric is exported to Nigeria, which should be a large natural market for Ghana but Nigeria continues to place high barriers to textile imports.

¶4. (U) Employment in the textile manufacturing and printing sector has declined steadily: 25,000 in 1977; 7,000 in 1995; 5,000 in 2000; and fewer than 3,000 in early 2005. The current figures are probably even lower. Akosombo Textiles employs about 1400 people. The other three firms, not counting Volta Star, employ less than 1000 combined. Volta Star may have about 200-300 workers. These figures are for industrial production and do not capture small-scale or artisanal production such as Kente cloth, which from unscientific observation appears to be showing some growth associated with tourism development.

5.(U) As reported in ref B, local textile spinning and printing

industries face stiff competition primarily from Nigeria, Cote d'Ivoire, China, India and Pakistan. There is little sign of a turnaround although it is too early to declare the Volta Star effort a failure. Smuggling also remains a significant problem, as is pirating of designs, especially by the Chinese. In an attempt to control smuggling and copying, the government mandated that all textile imports were to be received only through the Port of Takoradi and that prior to import, a sample must be submitted to the Standards Board to ensure it was not a stolen design. These measures, in place for more than a year, have not been effective and, in informal conversation, a Ghanaian Customs official, suggested it has probably made matters worse. Small traders who might otherwise be law abiding cannot afford to comply with the requirements and simply take their chances by smuggling the goods in "through the bush." The current import regime has been under review for more than a year.

Apparel

¶6. (U) There is little or no industrial-scale apparel production geared to selling on the local market. With the exception of about a dozen export oriented firms, apparel production in Ghana is dominated by small-scale tailoring and dressmakers, and most output is traditional garb. As with the textile industry, apparel manufacturing went into significant decline in the eighties, in large measure due to the introduction of imports of secondhand clothing. In an effort to promote Ghanaian-made apparel, the GoG has promoted wearing of clothing of traditional fabric and styles each Friday. The idea has found some traction and there is a noticeable increase in traditional wear on Fridays.

AGOA Exports

¶7. (U) Contrary to the situation in the textile sector where AGOA has had virtually no impact on textile investment, AGOA has made a critical difference in Ghana's competitiveness in the apparel sector. The benefits conferred by AGOA help compensate for the price and productivity advantage of competitors such as China,

particularly for apparel made from synthetics or blended fabrics. In addition, access to factory space and equipment, along with generous financing available from government funds has spurred investment, often by those well-connected politically.

8.(SBU) In spite of the fact that Ghana's apparel exports are increasing, there is considerable lack of stability in the sector and expected investment has not materialized as quickly as hoped. Two large AGOA exporters, Belin and California Link, have closed this year. A third, Top Circle, is suspended from taking advantage of AGOA benefits pending conclusion of an investigation into allegations that a significant percentage of the socks it exported were socks made in China rather than socks made in Ghana from Chinese yarn.

9.(SBU) As with most business matters in Ghana, the reasons for the closures cannot be explained by simple competitive pressures. Both of the firms that closed had pending orders. California Link has been kept open by the President's Special Initiative (PSI, i.e., the GoG) and the politically well-connected owner of Belin is opening a new, larger factory under a new name next door. With a few notable exceptions (e.g., Sleek Garments), ownership of apparel factories in Ghana is dominated by Ghanaians who have little or no experience in the sector. With GoG support, ex-pat management has been brought in to provide technical expertise. Joint ventures are a rarity. Thus, when problems arise with management, the factory is in serious trouble and the owners are ill-equipped to take corrective action quickly. In the case of Belin, the manager from Mauritius had family problems and returned to Mauritius. An Indian was brought in, initially as a manager but ostensibly with plans to buy an equity stake. Financial irregularities emerged associated with the new manager and the plant was closed. Belin had benefited from a large GoG-backed loan and it is not clear if it will be recovered.

¶10. (SBU) California Link, the second largest AGOA beneficiary, had orders as part of a sub-contract for drugstore uniforms. For unknown reasons, the owner closed the plant on very short notice and walked away from a large loan through Ecobank (one of the leading regional banks) that was guaranteed by the USG's Development Credit Authority. A Sri Lankan investor with long experience in Kenya is now managing the plant. He is also planning to invest in an apparel and denim washing plant here in Ghana.

¶11. (U) In general, the export orders are not adequate to keep the firms running consistently at full capacity so most take advantage of the Free Zone provision allowing them to sell up to 30% of output locally. School uniforms and commemorative-event wear often help fill the gap and keep machines and workers working. In the exporting factories, there are probably at least about 1600-2000 sewing machines.

China

12.(U) ATL is a subsidiary of CHA Textiles Group of Hong Kong and Volta Star is, as noted managed by a Chinese firm. However, there is little or no Chinese management or equity investment in the apparel sector in Ghana but Chinese inputs are omnipresent. China is the dominant supplier of sewing machines, fabric, and notions such as zippers and buttons. China is also a major competitor for business. However, in at least one case, Ghana garnered a major order for drugstore uniforms because the buyer (Superior Uniform Group) was looking to diversify suppliers away from dependence on China. Shipping times from Ghana to the East Coast are also shorter and costs of labor are lower, although that does not compensate for the higher costs of electricity and trade financing interest rates in Ghana.

¶13. (SBU) China is likely to remain the supplier of choice for inputs for some time to come, although some managers are looking at other sources. For example, the new managers of California Link (the name will change soon to U&U Fashions) are planning to source

at least a few imports such as thread and poly bags (for packaging) from established contacts in Kenya. The owner of Sleek Garments has done some test production with denim from Cote d'Ivoire but until Ghana has a denim washing facility, that line will not take off. There is some limited South African supply but managers Post spoke with said they generally just return to suppliers with whom they already have a relationship in China.

Efforts to Increase Competitiveness

14.(SBU) The President's Special Initiative (PSI) is a capacity-building and incentive program designed to increase Ghana's competitiveness across a number of sectors. Launched in 2001, the PSI includes an ambitious Textile and Apparel element that focuses in particular on garment manufacturers. As set out in ref B, it remains a mixed success. The provision of good factory space and equipment at attractive prices and access to finance, along with expedited customs clearance by virtue of location in a free zone, have been effective in bringing new investment into the sector. However, the importance of personal connections in accessing PSI benefits and reliance on ex-pat management raise questions about sustainability.

¶15. (SBU) PSI plays a very hands-on role in the apparel sector as evidenced by its takeover of the California Link facility when California Link defaulted on its loan. It also played a major role in garnering the Superior Uniform Group order by stepping in as the recipient of the purchase order when individual firms could not get commitments for letters of credit from banks to purchase fabrics. It also used to run a training center with a view to providing well-trained workers to the apparel factories. However, based on conversations with several managers, those trained at the center represent a very small portion of their workforce and attracting labor for the basic sewing tasks was not a major issue with which they needed government assistance. The managers said they could train a worker in about two weeks.

¶16. (U) Other efforts to improve Ghana's competitiveness that could benefit the textile and apparel sectors include development of an industrial policy that should be ready for review by Cabinet in early 2008. In addition, for the first time, Ghana will place a trade attach in Nigeria, the first for Ghana in the region. Reduction of Nigeria's barriers to textile and apparel imports would provide a major boost to Ghana's prospect to become more globally competitive.

¶17. SBU) The managers Post spoke with generally argued for more, or different, government support, not a hands-off approach. Access to finance, equipment and infrastructure were areas where they believed government should do more to support the sector.

Overall Assessment of Future Competitiveness

¶18. (SBU) Ghana's relative success in the apparel sector depends on the use of imported fabric and other inputs and access to financing through dedicated funds. The extension of the third country fabric provision will keep Ghana's apparel firms in business for a few more years but the jury is still out as to whether Ghana is making and attracting the kinds of investments needed to build the foundation for a globally competitive Ghanaian textile or apparel capacity. There are a number of investors looking into vertically integrated textile and apparel mills and the GoG is offering the same kind of assistance they have offered for several years, including construction of factory facilities, and advantageous loan terms

through the Export Development Investment Fund (EDIF).

¶19. (SBU) More generally, Ghana's total reliance on imported inputs makes its supply chain prone to disruption. This compounds other key challenges to meeting large orders in a timely manner such as access to finance and low labor productivity. Pay at the apparel factories for sewers on the production lines is right at minimum

wage, just under the equivalent of $50/month, lower than some comparable countries. However, when working hours and output are factored in, Ghana's wage advantage disappears. For example, the manager with experience in Kenya said that the factory he oversaw in Kenya produced 3.5 garments per machine per day while the figure at California Link is 2.5.

BRIDGEWATER